

Village of Shelby

**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT**

February 29, 2004

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <b>VILLAGE OF SHELBY</b>	County <b>OCEANA</b>
Audit Date <b>2/29/04</b>	Opinion Date <b>5/20/04</b>	Date Accountant Report Submitted to State:	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |   |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>BRICKLEY DELONG, PLC</b>			
Street Address <b>500 TERRACE PLAZA, P.O. BOX 999</b>		City <b>MUSKEGON</b>	State <b>MI</b>
		ZIP <b>49443</b>	
Accountant Signature <i>Matthew J. Carter, C.P.A. for Brickley DeLong, P.L.C.</i>		Date <b>6/15/04</b>	

## CONTENTS

LIST OF ELECTED AND APPOINTED OFFICIALS .....	3
INDEPENDENT AUDITORS' REPORT .....	4
GENERAL PURPOSE FINANCIAL STATEMENTS	
COMBINED BALANCE SHEET—ALL FUND TYPES AND ACCOUNT GROUPS .....	6
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES—ALL GOVERNMENTAL FUND TYPES .....	8
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES—BUDGET AND ACTUAL— GENERAL FUND AND SPECIAL REVENUE FUNDS .....	9
COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS—ALL PROPRIETARY FUND TYPES .....	10
COMBINED STATEMENT OF CASH FLOWS—ALL PROPRIETARY FUND TYPES .....	11
STATEMENT OF CHANGES IN PLAN NET ASSETS .....	12
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS .....	13
COMBINING AND INDIVIDUAL FUND STATEMENTS	
SPECIAL REVENUE FUNDS	
COMBINING BALANCE SHEET .....	26
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES .....	27
ENTERPRISE FUNDS	
COMBINING BALANCE SHEET .....	28
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS .....	29
COMBINING STATEMENT OF CASH FLOWS .....	30

Village of Shelby  
**LIST OF ELECTED AND APPOINTED OFFICIALS**  
February 29, 2004

**Elected Officials**

Jack Cheever .....	Village President
Ross Field.....	President Pro-Tem
Bill Glover .....	Council Member
Steve Lessens .....	Council Member
Pat Morningstar.....	Council Member
Andrea Garcia .....	Council Member
Wayne Tanner .....	Council Member
Betty Poort .....	Clerk
Yolanda Estrada .....	Treasurer

**Appointed Officials**

Sandy Dean .....	Deputy Clerk/Bookkeeper
Randal Phillips.....	Superintendent of Public Works

**BRICKLEY DeLONG**  
CERTIFIED PUBLIC ACCOUNTANTS

---

**INDEPENDENT AUDITORS' REPORT**

May 20, 2004

Village Council  
Village of Shelby  
Shelby, Michigan

We have audited the accompanying general purpose financial statements of the Village of Shelby, Michigan as of and for the year ended February 29, 2004 as listed in the table of contents. These general purpose financial statements are the responsibility of the Village of Shelby's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Village of Shelby as of February 29, 2004, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

BRICKLEY DeLONG

Village Council  
May 20, 2004  
Page 2

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining and individual fund financial statements and schedules as provided on pages 27 through 31 are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the Village of Shelby. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

*Brickley DeLong, P.C.*

Village of Shelby  
**COMBINED BALANCE SHEET—ALL FUND TYPES AND ACCOUNT GROUPS**  
February 29, 2004

ASSETS

	Governmental Fund Types			Proprietary Fund Types		Fiduciary Fund Types	Account Groups	
	General	Special revenue	Debt service	Enterprise	Internal service		General fixed assets	General long-term debt
Cash and investments	\$ 590,865	\$ 582,435	\$ 37,897	\$ 310,159	\$ 188,556	\$ 197,906	\$ -	\$ -
Receivables								
Taxes	26,207	5,152	10,641	-	-	-	-	-
Accounts, less allowance for doubtful accounts of \$18,600	-	-	-	97,708	-	-	-	-
Due from other governmental units	38,650	37,089	-	-	-	-	-	-
Inventories	-	-	-	38,892	-	-	-	-
Restricted cash and investments	-	-	-	16,280	108,771	-	-	-
Property, plant and equipment—at cost net of accumulated depreciation and amortization	-	-	-	3,027,756	243,087	-	629,778	-
Bond issue costs, net of amortization	-	-	-	24,125	-	-	-	-
Amount available in debt service fund	-	-	-	-	-	-	-	48,538
Amount to be provided for retirement of general long-term debt	-	-	-	-	-	-	-	1,581,965
	<u>\$ 655,722</u>	<u>\$ 624,676</u>	<u>\$ 48,538</u>	<u>\$ 3,514,920</u>	<u>\$ 540,414</u>	<u>\$ 197,906</u>	<u>\$ 629,778</u>	<u>\$ 1,630,503</u>

The accompanying notes are an integral part of this statement.

Village of Shelby  
**COMBINED BALANCE SHEET—ALL FUND TYPES AND ACCOUNT GROUPS—CONTINUED**  
February 29, 2004

**LIABILITIES AND FUND EQUITY**

	Governmental Fund Types			Proprietary Fund Types		Fiduciary Fund Types		Account Groups	
	General	Special revenue	Debt service	Enterprise	Internal service	Trust and Agency		General fixed assets	General long-term debt
<b>LIABILITIES</b>									
Current maturities of long-term debt	\$ -	\$ -	\$ -	\$ 55,000	\$ -	\$ -	\$ -	\$ -	-
Accrued interest	-	-	-	13,646	-	-	-	-	-
Customer deposits	-	-	-	1,498	-	-	-	-	-
Long-term obligations	-	-	-	1,255,000	-	-	-	-	1,630,503
	-	-	-	1,325,144	-	-	-	-	1,630,503
<b>FUND EQUITY</b>									
Investment in general fixed assets	-	-	-	-	-	-	-	629,778	-
Contributed capital	-	-	-	590,926	-	-	-	-	-
Retained earnings	-	-	-	16,280	108,771	-	-	-	-
Reserved	-	-	-	1,582,570	431,643	-	-	-	-
Unreserved	-	-	-	-	-	-	-	-	-
Fund balances	-	-	-	-	-	197,906	-	-	-
Reserved for pension benefits	655,722	624,676	48,538	-	-	-	-	-	-
Undesignated	655,722	624,676	48,538	2,189,776	540,414	197,906	629,778	-	-
	\$ 655,722	\$ 624,676	\$ 48,538	\$ 3,514,920	\$ 540,414	\$ 197,906	\$ 629,778	\$ 1,630,503	

The accompanying notes are an integral part of this statement.



Village of Shelby  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES—ALL GOVERNMENTAL FUND TYPES**  
 Year ended February 29, 2004

	General	Special revenue	Debt service
<b>Revenues</b>			
Taxes	\$ 274,772	\$ 67,744	\$ 125,364
Intergovernmental revenues—state	230,630	268,576	-
Charges for services	27,806	-	-
Fines and forfeits	6,607	-	-
Investment income	13,798	8,277	444
Other	4,306	1,595	-
	<u>557,919</u>	<u>346,192</u>	<u>125,808</u>
<b>Expenditures</b>			
Current			
Legislative	5,310	-	-
General government	55,155	-	-
Public safety	224,255	-	-
Public works	187,992	243,400	-
Culture and recreation	21,880	-	-
Other governmental functions	1,880	-	-
Capital outlay	7,968	-	-
Debt service			
Principal	-	15,000	35,000
Interest and fees	-	6,058	79,625
	<u>504,440</u>	<u>264,458</u>	<u>114,625</u>
Excess of revenues over expenditures	53,479	81,734	11,183
Fund balances at March 1, 2003	602,243	542,942	37,355
Fund balances at February 29, 2004	<u>\$ 655,722</u>	<u>\$ 624,676</u>	<u>\$ 48,538</u>

The accompanying notes are an integral part of this statement.

Village of Shelby  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES—BUDGET AND ACTUAL—GENERAL FUND AND SPECIAL REVENUE FUNDS**  
Year ended February 29, 2004

	General Fund			Special Revenue Funds		
	Amended budget	Actual	Over (under) amended budget	Amended budget	Actual	Over (under) amended budget
Revenues						
Taxes	\$ 269,000	\$ 274,772	\$ 5,772	\$ 67,300	\$ 67,744	\$ 444
Intergovernmental revenues—state	206,650	230,630	23,980	214,690	268,576	53,886
Charges for services	28,200	27,806	(394)	-	-	-
Fines and forfeits	4,800	6,607	1,807	-	-	-
Investment income	8,000	13,798	5,798	8,700	8,277	(423)
Other	4,550	4,306	(244)	-	1,595	1,595
	<u>521,200</u>	<u>557,919</u>	<u>36,719</u>	<u>290,690</u>	<u>346,192</u>	<u>55,502</u>
Expenditures						
Current						
Legislative	6,166	5,310	(856)	-	-	-
General government	69,698	55,155	(14,543)	-	-	-
Public safety	229,243	224,255	(4,988)	-	-	-
Public works	206,578	187,992	(18,586)	291,075	243,400	(47,675)
Culture and recreation	23,257	21,880	(1,377)	-	-	-
Other governmental functions	2,500	1,880	(620)	-	-	-
Capital outlay	27,000	7,968	(19,032)	28,015	-	(28,015)
Debt service	-	-	-	15,000	15,000	-
Principal	-	-	-	6,100	6,058	(42)
Interest and fees	<u>564,442</u>	<u>504,440</u>	<u>(60,002)</u>	<u>340,190</u>	<u>264,458</u>	<u>(75,732)</u>
Excess of revenues over (under) expenditures	<u>\$ (43,242)</u>	<u>53,479</u>	<u>\$ 96,721</u>	<u>\$ (49,500)</u>	<u>81,734</u>	<u>\$ 131,234</u>
Fund balances at March 1, 2003		<u>602,243</u>			<u>542,942</u>	
Fund balances at February 29, 2004		<u>\$ 655,722</u>			<u>\$ 624,676</u>	

The accompanying notes are an integral part of this statement.

Village of Shelby  
**COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES  
 IN RETAINED EARNINGS—ALL PROPRIETARY FUND TYPES**  
 Year ended February 29, 2004

	Enterprise	Internal service
Operating revenues		
Charges for services	\$ 397,122	\$ 146,810
Other	22,952	790
	<u>420,074</u>	<u>147,600</u>
Operating expenses		
Operations	276,355	82,968
Depreciation and amortization	63,158	35,170
	<u>339,513</u>	<u>118,138</u>
Operating income	80,561	29,462
Non-operating revenues (expenses)		
Investment income	4,718	7,768
Interest expense	(3,872)	-
Connecting fees	3,519	-
	<u>4,365</u>	<u>7,768</u>
Net income before other financing sources (uses)	84,926	37,230
Other finances sources (uses)		
Loss on sale of fixed assets	-	(3,589)
Operating transfers in	35,289	-
Operating transfers out	(35,289)	-
	<u>-</u>	<u>(3,589)</u>
NET INCOME	84,926	33,641
Depreciation charged to contributed capital	32,742	-
Retained earnings at March 1, 2003	1,481,182	506,773
Retained earnings at February 29, 2004	<u>\$ 1,598,850</u>	<u>\$ 540,414</u>

The accompanying notes are an integral part of this statement.

Village of Shelby  
**COMBINED STATEMENT OF CASH FLOWS—ALL PROPRIETARY FUND TYPES**  
Year ended February 29, 2004

	Enterprise	Internal service
Operating activities		
Operating income	\$ 80,561	\$ 29,462
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	63,158	35,170
Funds from operations	<u>143,719</u>	<u>64,632</u>
(Increase) decrease in operating assets		
Receivables	2,881	-
Inventories	(3,603)	-
Increase (decrease) in operating liabilities		
Accrued interest	(3,528)	-
Deposits	<u>170</u>	<u>-</u>
Net cash provided by operating activities	139,639	64,632
Noncapital financing activities		
Operating transfers in	35,289	-
Operating transfers out	<u>(35,289)</u>	<u>-</u>
Capital and related financing activities		
Connecting fees	3,519	-
Property, plant and equipment purchases	(180,561)	(40,287)
Proceeds from long-term debt financing	220,051	-
Payments on long-term debt	(55,000)	-
Payments on advances from other funds	(66,673)	66,673
Proceeds from sale equipment	-	4,011
Interest expense	<u>(3,872)</u>	<u>-</u>
Net cash provided by (used for) capital and related financing activities	(82,536)	30,397
Investing activities		
Investment income	<u>4,718</u>	<u>7,768</u>
INCREASE IN CASH AND INVESTMENTS	61,821	102,797
Cash and investments at March 1, 2003	264,618	194,530
Cash and investments at February 29, 2004	<u>\$ 326,439</u>	<u>\$ 297,327</u>
Cash and investments at February 29, 2004 consists of:		
Operating	\$ 310,159	\$ 188,556
Restricted	<u>16,280</u>	<u>108,771</u>
	<u>\$ 326,439</u>	<u>\$ 297,327</u>

The accompanying notes are an integral part of this statement.

Village of Shelby  
Pension Trust Fund  
**STATEMENT OF CHANGES IN PLAN NET ASSETS**  
Year ended February 29, 2004

<b>ADDITIONS</b>	
Contributions	
Employee contributions	\$ 11,804
Employer contributions	<u>11,820</u>
	23,624
Investment income	
Net appreciation in fair value	<u>20,315</u>
	43,939
<b>DEDUCTIONS</b>	
Investment fees	<u>250</u>
	43,689
<b>NET INCREASE FOR THE YEAR</b>	
Net assets held in trust for pension benefits at March 1, 2003	<u>154,217</u>
Net assets held in trust for pension benefits at February 29, 2004	<u>\$ 197,906</u>

The accompanying notes are an integral part of this statement.

Village of Shelby  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
February 29, 2004

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Village of Shelby are prepared in accordance with generally accepted accounting principles. The Village's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

**1. Reporting Entity**

The Village of Shelby is a Village governed by an elected seven-member Council.

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," these financial statements present the Village and its component units. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. Since no organizations meet this criteria, none are included in the financial statements.

**2. Fund Accounting**

The accounts of the Village are organized and operated on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements. Account groups are a reporting device used to account for certain assets and liabilities of the governmental funds not recorded directly in those funds.

The following fund categories (further divided by fund type) and account groups are used by the Village:

***Governmental Funds***

Governmental funds are used to account for the Village's general government activities. The General Fund is the Village's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The special revenue funds account for revenue sources that are legally restricted to expenditure for specific purposes (not including major capital projects). The debt service fund accounts for the servicing of general long-term debt not being financed by proprietary funds. The capital projects fund accounts for the acquisition of fixed assets or construction of major capital projects.

Village of Shelby  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS—CONTINUED  
February 29, 2004

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

2. Fund Accounting—Continued

***Proprietary Funds***

Proprietary funds account for activities of the Village similar to those found in the private sector, where cost recovery and the determination of net income is useful or necessary for sound fiscal management. Enterprise funds are used to account for those operations that provide services to the public while the internal service funds account for operations on a cost-reimbursement basis that provide services to other Village funds.

***Fiduciary Funds***

Fiduciary funds account for assets held by the Village on behalf of others in a fiduciary capacity. Agency funds account for assets the Village holds on behalf of others. Pension trust funds account for assets held in a fiduciary capacity for employee retirement benefits.

***Account Groups***

The General Fixed Assets Account Group is used to account for fixed assets. The General Long-term Debt Account Group is used to account for general long-term debt and certain other liabilities.

3. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Governmental fund types are presented using the flow of current financial resources measurement focus. With this measurement focus, operating statements present increases and decreases in net current assets and unreserved fund balance as a measure of available spendable resources.

The governmental fund types use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined, and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The Village considers all revenues available if they are collected within sixty days after year end. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences, claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Property taxes, franchise taxes, licenses, and interest are susceptible to accrual. Other receipts and taxes become measurable and available when cash is received by the Village and is recognized as revenue at that time.

Village of Shelby  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS—CONTINUED**  
February 29, 2004

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

3. Measurement Focus and Basis of Accounting—Continued

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible-to-accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

Proprietary funds are accounted for on the flow of economic resources measurement focus. This measurement focus emphasizes the determination of net income. The accrual basis of accounting is used for proprietary fund types. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Agency funds are custodial in nature and do not measure results of operations or have a measurement focus. Pension trust funds are custodial in nature and utilize accrual accounting.

4. Assets, Liabilities and Equity

a. Deposits and Investments

The Village's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of six months or less from date of acquisition. All short-term cash surpluses are maintained in a cash pool and allocated to each fund based on month-end deposits.

The Village has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the Village to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers acceptances, state-approved investment pools, and certain mutual funds.

b. Restricted Assets

Village Council actions and bond covenants of the Village's proprietary fund types require portions of the debt proceeds as well as other resources to be set aside for various purposes. These amounts are reported as restricted assets.

c. Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."



Village of Shelby  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS—CONTINUED**  
February 29, 2004

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

4. Assets, Liabilities and Equity—Continued

c. Receivables and Payables—Continued

Advances between funds are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectibles.

The Village bills and collects its own property taxes. Taxes are levied on July 1, and are due without penalty on or before September 15. The property taxes attach as an enforceable lien on property as of July 1. Uncollected real property taxes as of September 15 are turned over by the Village to the County for collection. Collection of delinquent personal property taxes as of September 15 remain the responsibility of the Village's Treasurer. Since substantially all Village property taxes levied are current receivables, tax revenues are recognized when levied.

The 2003 State taxable value for the Village was \$25,073,534 on which ad valorem taxes were levied at 10.96 mills for operating purposes, 2.74 mills for Local Street, and 5 mills for Debt Service. These amounts are recognized in the respective funds on the financial statements.

d. Inventories

Inventories in Enterprise funds are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when purchased rather than when consumed.

e. Property, Plant and Equipment

Property, plant and equipment used in governmental fund types of the Village are recorded in the general fixed assets account group at cost or estimated historical cost if purchased or constructed. Donated fixed assets are recorded at their estimated fair value at the date of donation. Assets in the general fixed assets account group are not depreciated. Interest incurred during construction is not capitalized on general fixed assets.

Village of Shelby  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS—CONTINUED  
February 29, 2004

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

4. Assets, Liabilities and Equity—Continued

e. Property, Plant and Equipment—Continued

Public domain (infrastructure) general fixed assets (e.g., roads, bridges, sidewalks and other assets that are immovable and of value only to the government) are not capitalized.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not included in the general fixed assets account group or capitalized in the proprietary funds.

Property, plant and equipment in the proprietary funds of the Village are recorded at cost. Property, plant and equipment donated to these proprietary fund type operations are recorded at their estimated fair value at the date of donation.

Major outlays for capital assets and improvements are capitalized in proprietary funds as projects are constructed. Interest incurred during the construction phase of proprietary fund fixed assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Property, plant and equipment are depreciated in the proprietary fund of the Village utilizing the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Supply mains	100
Treatment lagoons	40
Structures and improvements	20-50
Vehicles	10
Office equipment	10
Computer equipment	5

f. Compensated Absences

Full-time permanent employees are granted vacation benefits in varying amounts to specified maximums depending on tenure with the Village. Accumulated vacation time does not generally carry over beyond the calendar year in which it is earned. Sick leave accrues to full-time permanent employees to specified maximums. Generally, after one year of service, employees are entitled to a percentage of their sick leave balance. The sick leave benefits are recorded in the general long-term debt account group.

Village of Shelby  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS—CONTINUED  
February 29, 2004

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

4. Assets, Liabilities and Equity—Continued

g. Long-Term Obligations

The Village reports long-term debt of governmental funds at face value in the general long-term debt account group. Certain other governmental fund obligations not expected to be financed with current available financial resources are also reported in the general long-term debt account group. Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds.

For governmental fund types, bond premiums and discounts, as well as issuance costs, are recognized during the current period. Bond proceeds are reported as an other financing source net of the applicable premium or discount. Issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures.

For proprietary fund types, bond premiums and discounts, are deferred and amortized over the life of the bonds using the effective interest method. Bond issuance costs are deferred and amortized over the life of the bondings using the Straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are reported as deferred charges.

h. Fund Equity

Reservations of fund equity represent amounts that are not appropriable or are legally segregated for a specific purpose. Designations of fund equity represent tentative management plans that are subject to change. The proprietary funds' contributed capital represents equity acquired through capital grants and capital contributions from developers, customers, or other funds.

5. Combining Statements

The Village operates a single debt service, internal service and pension fund; therefore, no combining statements for these funds are presented.

6. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

Village of Shelby  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS—CONTINUED**  
February 29, 2004

**NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

***Budgetary Information***

Annual budgets, as required by state statutes, are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

The Village follows these procedures in establishing the budgetary information provided in the financial statements:

- a. Prior to the first Monday of January, the Village President submits to the Village Council a proposed operating budget for the year commencing the following March 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted at the Village Hall to obtain taxpayer comments.
- c. Not later than the first Monday in February, the budget is legally enacted through passage of a resolution.
- d. Supplemental appropriations, when required to provide for additional expenditures, are matched by additional anticipated revenues or an appropriation of available fund balance and must be approved by the Village Council. All appropriations lapse at year end.

The appropriated budget is prepared by fund, function, and department. The Village's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Village Council. The legal level of budgetary control is the department level. The Village Council made several supplemental budgetary appropriations throughout the year.

Village of Shelby  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS—CONTINUED  
February 29, 2004

NOTE C—DEPOSITS AND INVESTMENTS

1. Deposits

The Village's deposits are categorized to give an indication of the level of risk assumed by the entity at year end. Category 1 includes deposits insured or collateralized with securities held by the entity or its agent in the entity's name. Category 2 includes deposits collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name. Category 3 includes deposits which are uncollateralized.

As of February 29, 2004, the Village's carrying amount of deposits was \$1,834,664 and the bank balance was \$1,854,308. Of the bank balance, \$213,014 was covered by federal depository insurance.

2. Investments

As of February 29, 2004, the Village's investments represented holdings in investment pools, certificates of deposit with original maturities of longer than six months and mutual funds.

During the year ended February 29, 2004, the Village's investments were only in these types of investments.

The Village's investments are categorized below to give an indication of the level of risk assumed by the entity at year end. Category 1 includes investments that are insured or registered or the securities held by the Village or its agent in the Village's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Village's name. Category 3 included uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the Village's name. As of February 29, 2004, the Village had Category 1 certificates of deposit, with carrying values approximating market values of \$75,117. Mutual funds are not categorized. The state-approved investment pools are not categorized as they are synonymous with mutual funds. As of February 29, 2004, the Village's carrying amount and market value in mutual funds and state-approved investment pools was \$393,998.

The composition of pension trust fund investments at fair value is included in the previous paragraph and shown as follows:

Guaranteed Income Funds	\$132,741
Managed Domestic Stock Funds	62,345
International Stock Funds	<u>2,820</u>
	<u>\$197,906</u>

Village of Shelby  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS—CONTINUED**  
February 29, 2004

**NOTE D—RESTRICTED CASH**

Restrictions are placed on assets by bond ordinance and Village Council action. At February 29, 2004, restricted cash of \$16,280 in the Water Fund was set aside for debt retirement. Restricted cash of \$108,771 in the Internal Service Fund was set aside for equipment replacement.

**NOTE E—PROPERTY, PLANT AND EQUIPMENT**

1. Summary of Property, Plant and Equipment

Property, plant and equipment consists of the following at February 29, 2004:

	<u>Enterprise</u>	<u>Internal Service</u>	<u>General fixed assets account group</u>
Land	\$ 235,692	\$ -	\$ 144,885
Buildings	-	-	201,692
Land improvements	-	-	227,333
Equipment and furniture	-	637,945	55,868
Water and sewer systems	<u>3,921,359</u>	<u>-</u>	<u>-</u>
	4,157,051	637,945	629,778
Less accumulated depreciation and amortization	<u>(1,129,295)</u>	<u>(394,858)</u>	<u>-</u>
	<u>\$ 3,027,756</u>	<u>\$ 243,087</u>	<u>\$ 629,778</u>

2. Summary of Changes in General Fixed Assets

Changes in the components of the general fixed assets account group are summarized as follows:

	<u>Balance March 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance February 29, 2004</u>
Land	\$ 144,400	\$ 485	\$ -	\$ 144,885
Buildings	201,692	-	-	201,692
Land improvements	226,651	682	-	227,333
Equipment and furniture	<u>49,067</u>	<u>6,801</u>	<u>-</u>	<u>55,868</u>
	<u>\$ 621,810</u>	<u>\$ 7,968</u>	<u>\$ -</u>	<u>\$ 629,778</u>

Village of Shelby  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS—CONTINUED**  
February 29, 2004

**NOTE F—LONG-TERM DEBT**

**1. Summary of and Changes in Long-Term Debt**

Long-term debt at February 29, 2004 is comprised of the following:

	Balance March 1, <u>2003</u>	<u>Additions</u>	<u>Retirements</u>	Balance February 29, <u>2004</u>
<b><i>Enterprise Fund</i></b>				
\$1,365,000 Revenue bonds, Series 2002 due in annual installments of \$62,000 to \$67,000 through October 2022; plus interest at 2.5%	\$1,144,949	\$ 220,051	\$ 55,000	\$1,310,000
Less current maturities				<u>(55,000)</u>
				<u>\$1,255,000</u>
<b><i>General long-term debt</i></b>				
\$1,500,000 General Obligation unlimited Tax Bonds dated March 1997 for road improvements due in semi-annual installments of \$40,000 to \$125,000 through September 2019; plus interest at rates varying from 5.85% to 7.3%	\$1,385,000	\$ -	\$ 35,000	\$1,350,000
 \$175,000 Michigan Transportation Fund bonds of 1999 due in annual installments of \$25,000 through September 2008; plus interest at rates varying from 4% to 4.55%	 <u>140,000</u>	 <u>-</u>	 <u>15,000</u>	 <u>125,000</u>
	1,525,000	-	50,000	1,475,000
Long-term compensated absences	<u>102,772</u>	<u>2,731</u>	<u>-</u>	<u>105,503</u>
	<u>\$1,627,772</u>	<u>\$ 2,731</u>	<u>\$ 50,000</u>	<u>\$1,580,503</u>

The Revenue Bonds and Michigan Transportation Fund are backed by the full faith and credit of the Village.

The Village was in compliance in all material respects with all the revenue bond ordinances at February 29, 2004.

Village of Shelby  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS—CONTINUED**  
February 29, 2004

NOTE F—LONG-TERM DEBT—Continued

2. Summary of Annual Requirements

The annual requirements to pay debt service, including interest of \$1,135,807, on the long-term debt outstanding at February 29, 2004 are as follows:

<u>Fiscal year</u>	<u>Enterprise Fund</u>	<u>General Long-Term Debt Account</u>	<u>Total</u>
2005	\$ 87,750	\$ 148,123	\$ 235,873
2006	86,375	149,278	235,653
2007	90,000	150,656	240,656
2008	88,500	146,990	235,490
2009	87,000	153,231	240,231
2010-2014	436,750	705,186	1,141,936
2015-2019	434,000	737,292	1,171,292
2020-2024	350,875	68,801	419,676
Thereafter	-	105,503	105,503
	<u>\$ 1,661,250</u>	<u>\$ 2,365,060</u>	<u>\$ 4,026,310</u>

NOTE G—OTHER INFORMATION

1. Risk Management

The Village is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Village carries commercial insurance. Liabilities are reported when it is probable that a loss in excess of insurance coverage has occurred and the amount of the loss can be reasonably estimated. Settled claims have not exceeded insurance coverage in the past three years.

2. Segment Information for Enterprise Fund

The Village of Shelby maintains two funds which provide water and sewer services. Segment information for the year ended February 29, 2004 is as follows:

	<u>Combined</u>	<u>Sewer Fund</u>	<u>Water Fund</u>
Operating revenues	\$ 420,074	\$ 104,975	\$ 315,099
Depreciation and amortization	63,158	19,827	43,331
Operating income (loss)	80,561	(16,664)	97,225
Net income (loss)	83,507	(45,398)	128,905
Property, plant and equipment additions	180,561	-	180,561
Net working capital	375,196	89,554	285,642
Total assets	3,513,501	1,008,064	2,505,437
Bonds and other long-term liabilities payable from operating liabilities	1,310,000	-	1,310,000
Total equity	2,188,357	1,008,064	1,180,293



Village of Shelby  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS—CONTINUED  
February 29, 2004

NOTE G—OTHER INFORMATION—Continued

3. Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the state government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Village expects such amounts, if any, to be immaterial.

NOTE H—PENSION PLAN

The Village provides pension benefits for all full-time employees through a money purchase plan. In a defined contribution plan, benefits depend solely on amounts contributed to the Plan plus investment earnings. The Plan is administered through an independent third party, and contributions are based on annual earnings. The Plan requires the Village to contribute 4 percent of covered payroll. For the year ended February 29, 2004, the contribution to the Plan by the Village was \$11,820.

**COMBINING AND INDIVIDUAL FUND STATEMENTS**

Village of Shelby  
Special Revenue Funds  
**COMBINING BALANCE SHEET**  
February 29, 2004

ASSETS

	Combined	Major Street	Local Street
Cash and investments	\$ 582,435	\$ 235,488	\$ 346,947
Taxes receivable	5,152	-	5,152
Due from other governmental units	<u>37,089</u>	<u>21,089</u>	<u>16,000</u>
	<u>\$ 624,676</u>	<u>\$ 256,577</u>	<u>\$ 368,099</u>

FUND BALANCE

Fund balances			
Undesignated	\$ <u>624,676</u>	\$ <u>256,577</u>	\$ <u>368,099</u>
	<u>\$ 624,676</u>	<u>\$ 256,577</u>	<u>\$ 368,099</u>

Village of Shelby  
Special Revenue Funds  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES**  
Year ended February 29, 2004

	Combined	Major Street	Local Street
<b>Revenues</b>			
Taxes	\$ 67,744	\$ -	\$ 67,744
Intergovernmental revenues—state	268,576	221,768	46,808
Investment income	8,277	3,043	5,234
Other	1,595	1,495	100
	<u>346,192</u>	<u>226,306</u>	<u>119,886</u>
<b>Expenditures</b>			
Public works	243,400	179,994	63,406
Debt service			
Principal	15,000	15,000	-
Interest and fees	6,058	6,058	-
	<u>264,458</u>	<u>201,052</u>	<u>63,406</u>
Excess of revenues over expenditures	81,734	25,254	56,480
Fund balances at March 1, 2003	542,942	231,323	311,619
Fund balances at February 29, 2004	<u>\$ 624,676</u>	<u>\$ 256,577</u>	<u>\$ 368,099</u>

Village of Shelby  
Enterprise Funds  
**COMBINING BALANCE SHEET**  
February 29, 2004

ASSETS

	Combined	Sewer	Water
<b>CURRENT ASSETS</b>			
Cash and investments	\$ 310,159	\$ 57,889	\$ 252,270
Accounts receivable, less allowance for doubtful accounts of \$18,600	97,708	30,707	67,001
Inventories	38,892	958	37,934
Total current assets	<u>446,759</u>	<u>89,554</u>	<u>357,205</u>
<b>RESTRICTED CASH</b>	16,280	-	16,280
<b>PROPERTY, PLANT AND EQUIPMENT—AT COST</b>			
NET OF ACCUMULATED DEPRECIATION	3,027,756	918,510	2,109,246
<b>BOND ISSUE COSTS—NET OF AMORTIZATION</b>	<u>24,125</u>	<u>-</u>	<u>24,125</u>
	<u>\$ 3,514,920</u>	<u>\$ 1,008,064</u>	<u>\$ 2,506,856</u>

LIABILITIES AND FUND BALANCE

<b>CURRENT LIABILITIES</b>			
Current maturities of long-term debt	\$ 55,000	\$ -	\$ 55,000
Accrued interest	13,646	-	13,646
Customer deposits	1,498	-	1,498
Total current liabilities	<u>70,144</u>	<u>-</u>	<u>70,144</u>
<b>LONG-TERM DEBT</b>	1,255,000	-	1,255,000
<b>FUND EQUITY</b>			
Contributed capital	590,926	590,926	-
Retained earnings			
Reserved	16,280	-	16,280
Unreserved	1,582,570	417,138	1,165,432
	<u>2,189,776</u>	<u>1,008,064</u>	<u>1,181,712</u>
	<u>\$ 3,514,920</u>	<u>\$ 1,008,064</u>	<u>\$ 2,506,856</u>

Village of Shelby  
Enterprise Funds  
**COMBINING STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN RETAINED EARNINGS**  
Year ended February 29, 2004

	Combined	Sewer	Water
Operating revenues			
Charges for services	\$ 397,122	\$ 96,444	\$ 300,678
Other	22,952	8,531	14,421
	<u>420,074</u>	<u>104,975</u>	<u>315,099</u>
Operating expenses			
Operations	276,355	101,812	174,543
Depreciation and amortization	63,158	19,827	43,331
	<u>339,513</u>	<u>121,639</u>	<u>217,874</u>
Operating income (loss)	80,561	(16,664)	97,225
Non-operating revenues (expenses)			
Investment income	4,718	908	3,810
Interest expense	(3,872)	-	(3,872)
Connecting fees	3,519	2,479	1,040
	<u>4,365</u>	<u>3,387</u>	<u>978</u>
Net income (loss) before other financing sources (uses)	84,926	(13,277)	98,203
Other finances sources (uses)			
Operating transfers in	35,289	1,584	33,705
Operating transfers out	(35,289)	(33,705)	(1,584)
	<u>-</u>	<u>(32,121)</u>	<u>32,121</u>
NET INCOME (LOSS)	84,926	(45,398)	130,324
Depreciation charged to contributed capital	32,742	32,742	-
Retained earnings at March 1, 2003	1,481,182	429,794	1,051,388
Retained earnings at February 29, 2004	<u>\$ 1,598,850</u>	<u>\$ 417,138</u>	<u>\$ 1,181,712</u>

Village of Shelby  
Enterprise Funds  
**COMBINING STATEMENT OF CASH FLOWS**  
Year ended February 29, 2004

	Total	Sewer	Water
Operating activities			
Operating income (loss)	\$ 80,561	\$ (16,664)	\$ 97,225
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation and amortization	63,158	19,827	43,331
Funds from operations	<u>143,719</u>	<u>3,163</u>	<u>140,556</u>
(Increase) decrease in operating assets			
Receivables	2,881	(251)	3,132
Inventories	(3,603)	32,747	(36,350)
Increase (decrease) in operating liabilities			
Accrued interest	(3,528)	-	(3,528)
Deposits	<u>170</u>	<u>-</u>	<u>170</u>
Net cash provided by operating activities	<u>139,639</u>	<u>35,659</u>	<u>103,980</u>
Noncapital financing activities			
Operating transfers in	35,289	1,584	33,705
Operating transfers out	<u>(35,289)</u>	<u>(33,705)</u>	<u>(1,584)</u>
Capital and related financing activities			
Connecting fees	3,519	2,479	1,040
Property, plant and equipment purchases	(180,561)	-	(180,561)
Proceeds from long-term debt financing	220,051	-	220,051
Payments on long-term debt	(55,000)	-	(55,000)
Payments on advances from other funds	(66,673)	-	(66,673)
Interest expense	<u>(3,872)</u>	<u>-</u>	<u>(3,872)</u>
Net cash used for capital and related financing activities	<u>(82,536)</u>	<u>(29,642)</u>	<u>(52,894)</u>
Investing activities			
Investment income	<u>4,718</u>	<u>908</u>	<u>3,810</u>
INCREASE IN CASH AND INVESTMENTS			
Cash and investments at March 1, 2003	61,821	6,925	54,896
Cash and investments at February 29, 2004	<u>264,618</u>	<u>50,964</u>	<u>213,654</u>
Cash and investments at February 29, 2004 consists of:			
Operating	\$ 326,439	\$ 57,889	\$ 268,550
Restricted	<u>310,159</u>	<u>57,889</u>	<u>252,270</u>
	<u>16,280</u>	<u>-</u>	<u>16,280</u>
	<u>\$ 326,439</u>	<u>\$ 57,889</u>	<u>\$ 268,550</u>